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SUBJECT: DESPITE PORT AUTHORITY ROADBLOCKS, PORT REFORM CONTINUES APACE

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¶1. (SBU) SUMMARY: Internal disputes within the GOL and second thoughts about the merits of private management at the Freeport of Monrovia present fresh challenges for the Port Sector Reform Program (PSRP), but are unlikely to derail a two-year process that enjoys Presidential and unified donor support. The new leadership at the National Port Authority (NPA) and the Bureau of Maritime Affairs claim privatization would weaken the NPA, decrease revenue and infringe upon Liberia's economic sovereignty, but reformers regard such objections as the last-gasp opposition of vested interests. International donors must reinforce the longstanding message that privatization will unlock widespread economic growth in Liberia and secure financing for port renovation. The abrupt failure of an otherwise exemplary concessions process would deter future investment and could prompt donors such as the World Bank to withhold funds from the GOL. END SUMMARY.

¶2. (SBU) The World Bank, GOL, USG, and UNMIL have long regarded port privatization as the best mechanism for attracting investment to renovate port infrastructure in order to increase customs revenue, lower costs and realize economic growth in an import-dependent country. In recognition of these economic realities, all four parties signed a memorandum of understanding in December 2007 to create the Port Sector Reform Program (PSRP), to be housed in the Executive Mansion. Under the aegis of the PSRP, the GOL has spent two years screening port management companies and preparing for a port privatization that requires the winning concessionaire to invest $50 million to rehabilitate the Freeport of Monrovia (reftel). Finalists APMT, Bollore, and ICTSI are expected to submit bids for the 25-year management contract in early December. The GOL will judge bidders based on their technical proficiency and their proposed revenue sharing agreement. The contract will be finalized in January with expected management transfer in July 2010 after the GOL meets conditions precedent.

Roadblocks from Vested Interests

¶3. (SBU) The PSRP envisions the NPA to be a landlord rather than a port operator with direct access to customs revenues and container fees. Our conversations with NPA Managing Director Matilda Parker, Bureau of Maritime Affairs Commissioner and Chairman of the NPA Board Binyah Kesselly (both of whom assumed their positions well after the PSRP was underway), and other players suggest they are using their influence to stall or recast port reform. Both complain the current concession would reduce revenue to the NPA, hamper economic growth and infringe upon Liberia's economic sovereignty. They dismiss donors' opposing arguments, stating that the PRSP has failed to produce compelling economic data to justify the claim that an experienced port management company would increase container volume and reduce expenses, generating more net revenue for the GOL.

¶4. (SBU) Given that President Sirleaf continues to support port reform, Parker and Kesselly maintain a nominal commitment to privatization. Parker pointed to the fact that selection of a port

management firm constituted the NPA's next 90-day deliverable under the Poverty Reduction Strategy, while Kesselly acknowledged the need for some privatization, albeit one that offered more favorable revenue sharing terms for the NPA.

¶5. (SBU) However, relations between port leadership and the PRSP have turned acrimonious, as Port Sector Reform Secretariat Executive Director Patrick Sendolo charges Parker and Kesselly with inaction that approaches sabotage. For example, the NPA has yet to proceed with conditions precedent, most notably the termination of leases on 30 warehouses within the concessionary area to make way for a future port manager's storage needs. While Kesselly claims it cannot be done without an Executive Order, Sendolo believes the NPA wants to force a time-consuming process that would require a considerable outlay of Presidential political capital. Further, Sendolo charges Parker with quietly downplaying GOL enthusiasm for privatization during private meetings with the three finalists, and believes she refuses to downsize a bloated port staff because it strengthens her support among the rank and file and makes the concession less attractive. With both sides eager to cast aspersions, Kesselly assured Econoff that Sendolo was a "junior employee" with no influence over the President's thinking.

Privatization or Bust

¶5. (SBU) World Bank Lead Transport Specialist in Africa Gylfi Palsson dismissed NPA grumblings and GOL infighting as "noise" that cannot derail a privatization two years in the making. Palsson, a veteran of numerous West African port privatizations, observed that every port authority defends its territory jealously and imposes roadblocks to privatization. Concessionaires will not be swayed by

this customary port authority fuss, he assured. Furthermore, Sendolo and Palsson both insist the GOL has staked its credibility on the transparency of this process and invested too much effort to allow it to fail. Palsson believes the President would issue an Executive Order cancelling port leases and endure inevitable lawsuits if it meant saving the deal.

¶6. (SBU) In fact, Palsson contends that private sector enthusiasm for the concession has exceeded his expectations, initially low due to the relatively modest container volume at the Freeport and the need for extensive up-front investment. All three finalists have invested considerable time and resources in performing their own due diligence, and he anticipates receiving at least two completed bids in December. If NPA inaction were to undermine the concession process, Palsson warns that the consequences would be dire. Failure might deter future international investment. Further, he warned that the World Bank would withhold future funding from the GOL and predicted that the European Commission might follow suit.

¶7. (SBU) COMMENT: Port leadership appears to be resisting privatization as a perceived threat to its autonomy. However, the logic that privatization achieves better port management and increased revenue streams cannot be ignored, and the Liberian NPA is unlikely to reverse a lengthy track record of gross mismanagement and corruption at the Freeport. However, given that NPA and BMA top executives are persuasive personalities who enjoy close personal relationships with the President, the port authority's vested interests could still work mischief upon the privatization. Post will continue to signal its support for the PSRP, coordinate messages with other donors and explain the adverse consequences should NPA reluctance derail a reform that would benefit millions.

ROBINSON